

Message Text

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R 152109Z NOV 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4283

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 25980, NOVEMBER 4, 1974

1. SUMMARY. STRIKES AND WORK STOPPAGES CONTINUE TO BESET FRENCH PUBLIC SECTOR, PROMPTING GOVERNMENT WARNINGS OF ECONOMIC PARALYSIS. THERE HAS BEEN CHANGE IN TONE OF FINANCE MINISTER FOURCADE'S STATEMENTS ON FRENCH ECONOMIC OUTLOOK AND GOF ANTI-INFLATION PROGRAM: RECENTLY HE HAS EMPHASIZED IMPORTANCE OF MAINTAINING EMPLOYMENT LEVELS AND SUGGESTED THERE MIGHT BE SOME MODERATION OF STABILIZATION POLICIES EARLY NEXT YEAR. PRIVATE-SECTOR SURVEYS CONFIRM GOF COOLING-OFF PLAN TAKING HOLD SOONER (AND TO GREATER EXTENT) THAN EXPECTED, WITH NEAR-TERM OUTLOOK DOMINATED BY SLOWING OF EXPANSION. END SUMMARY.

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2. GOF HOLDS FAST AS PUBLIC-SECTOR STRIKES CONTINUE -

SINCE FIRST OF MONTH, STRIKES AND WORK STOPPAGES IN FRENCH PUBLIC SECTOR HAVE CONTINUED AND SPREAD, LEADING PRIME MINISTER CHIRAC TO WARN OF "PROGRESSIVE PARALYSIS OF SERVICES ESSENTIAL TO THE NATION'S LIFE." POSTAL STRIKE (REPORTED REFTEL AND PARIS 25540) STILL SHOWS NO SIGN OF ENDING, AND INTERMITTENT STOPPAGES OVER PAST TWO WEEKS HAVE AFFECTED RAILROADS, GAS AND ELECTRICITY, TRASH COLLECTION, RADIO AND TV BROADCASTING, AND COAL INDUSTRY. CURRENT STRIKE SITUATION REPORTED SEPTTEL.

STRIKES IN PUBLIC SECTOR PUT GOF, IN ITS ROLE AS EMPLOYER, DIRECTLY ON FIRING LINE AND POSE FOR GOF DILEMMA OF HOW TO ACHIEVE SETTLEMENT THAT, IN TERMS OF COSTS, DOES NOT IMPAIR INTEGRITY OF ANTI-INFLATION PROGRAM. IN CONCURRENT STATEMENTS ON GOVERNMENT'S POSITION IN FACE OF STRIKERS' DEMANDS, BOTH CHIRAC AND PRESIDENT GISCARD D'ESTAING HAVE INSISTED THAT GOF COULD NOT ALLOW ANTI-INFLATION POLICIES TO BE JEOPARDIZED.

3. FOURCADE SUGGESTS MODERATION IN GOF STABILIZATION POLICY -

IN TWO RECENT SPEECHES FINANCE MINISTER FOURCADE HAS DISPLAYED AT LEAST CHANGE IN TONE OF GOF CAMPAIGN AGAINST INFLATION. SPEAKING BEFORE PARIS CHAMBER OF COMMERCE NOVEMBER 7, FOURCADE SAID MAINTENANCE OF EMPLOYMENT WAS BASIC ECONOMIC OBJECTIVE OF GOF (COMPARED WITH CHIRAC'S STATEMENT SEPTEMBER 19 THAT MAIN TARGET WAS PRICE INFLATION), AND INDICATED THAT DEMAND RESTRAINTS MAY BE EASED NEXT YEAR.

ACCORDING TO FOURCADE, "RETURN TO NORMAL CONDITIONS" NOW UNDERWAY; SHOULD TREND CONTINUE INTO 1975, HE SAID GOF WILL "ACCOMPANY RATHER THAN INCITE" DISINFLATION -- IMPLYING EMPHASIS ON BUDGET AND FISCAL RESTRAINT (INCLUDING "ANTI-INFLATION LEVY" REPORTED PARIS 25778), AND POSSIBLE RELAXATION OF CREDIT SQUEEZE. FOURCADE REITERATED GOF EXPECTATION OF ROUGHLY 4 PERCENT REAL GROWTH IN UNCLASSIFIED

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1975 AND DID NOT FORESEE PROBLEMS IN LEVEL OF INVESTMENT, WHICH HE SAID WILL HAVE INCREASED 12 PERCENT DURING 1974.

4. PATRONAT SEES CHANGE IN BUSINESS CLIMATE -

IN ITS LATEST REPORT ON ECONOMIC OUTLOOK, FRENCH PATRONAT (ROUGHLY EQUIVALENT TO NAM) INDICATES SHARP

ALTERATION IN BUSINESS CLIMATE SINCE MID-SEPTEMBER, AND CONCLUDES THAT GOF COOLING-OFF PLAN BEGINNING TO TAKE HOLD SOONER THAN EXPECTED. ACCORDING TO REPORT, TURN-AROUND APPARENTLY DUE TO EFFORTS BY FIRMS "IN VANGUARD OF DISTRIBUTION CHAIN" TO REDUCE STOCKS OF SUPPLIES OR FINISHED GOODS, IN ORDER TO COPE WITH FINANCING PROBLEMS BROUGHT ON BY GOF CREDIT SQUEEZE.

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THIS TREND SEEN TO BE SPREADING TO OTHER BRANCHES, WITH NEW ORDERS SLACKENING, INVENTORIES BUILDING UP AND BUSINESS SLOWING GENERALLY. ACCORDING TO PATRONAT, HOWEVER, NEITHER DOMESTIC NOR FOREIGN DEMAND HAS SLUMPED (ALTHOUGH LESS BUOYANT THAN IN EARLIER MONTHS). EXPORT SECTOR PRESENTLY THE "DECISIVE" SUPPORTING ELEMENT IN NEAR-TERM OUTLOOK, REPORT CONTINUES, BUT ONLY

MARGINAL GAINS CAN BE EXPECTED FROM SWITCHING TO EXPORTS
IN ORDER TO COMPENSATE FOR LOWER DOMESTIC SALES.

PATRONAT CONCLUDES THAT FIRMS' EARLIER INVESTMENT
POLICIES COULD PLACE THEM IN DANGEROUS SITUATION AT TIME
WHEN OUTLOOK TURNING DOWNWARD -- ESPECIALLY WHEN EFFECTS
OF TURNAROUND "AGGRAVATED BY EXCEPTIONAL TAXES" (I.E.,
GOF ANTI-INFLATIONARY LEVY).

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5. NEW ORDERS FALL OFF IN OCTOBER -

PARIS CHAMBER OF COMMERCE ECONOMIC SURVEY FOR OCTO-
BER SHOWS DISTINCT REDUCTION IN NEW ORDERS DURING LAST
HALF OF MONTH WITH PARALLEL INCREASE IN INVENTORIES. IN
SEVERAL SECTORS PRODUCTION REPORTEDLY TENDING TO OUTPACE
DEMAND. HOUSEHOLD CONSUMPTION, WHICH GREW MODERATELY
DURING SECOND QUARTER, PICKED UP AFTER SUMMER VACATIONS
WITH STRONG EMPHASIS ON CONSUMER DURABLES.

AMONG SECTORS, PRECAUTIONARY BUYING OF INTERMEDIATE
GOODS IS DROPPING OFF FOLLOWING DECLINE IN SOME RAW-
MATERIAL PRICES AND WEAKENING ACTIVITY IN CERTAIN
CONSUMER-GOODS SECTORS (AUTOS, TEXTILES). CAPITAL
EQUIPMENT SECTOR REMAINS GENERALLY THE MOST ACTIVE,
ALTHOUGH DIFFERENCES EXIST (E.G., HEAVY ELECTRICAL
EQUIPMENT DOING WELL, WHILE SOME MACHINERY PRODUCERS IN
DIFFICULTY). CONSUMER GOODS SECTOR CONTINUES MEDIOCRE
PERFORMANCE.

6. FIGURES FOR FIRST HALF SHOW ECONOMIC DECELERATION -

THE FRENCH ECONOMY REGISTERED DISTINCT SLACKENING
IN GROWTH RATES DURING FIRST HALF OF 1974, ACCORDING TO
PRELIMINARY RESULTS OF SEMI-ANNUAL INSEE (NATIONAL
STATISTICS INSTITUTE) SURVEY OF ECONOMIC SITUATION.
RAPID GROWTH DURING WINTER 1973-74 GAVE WAY TO SLOWDOWN
IN SECOND QUARTER 1974, SAID BY INSEE TO BE REFLECTED IN
BOTH INDUSTRIAL AND NON-INDUSTRIAL COMPONENTS OF GROSS
INTERNAL PRODUCT. (FRENCH GIP EQUIVALENT TO GDP LESS
SERVICES OF GOV'T EMPLOYEES AND DOMESTIC SERVANTS.)

ACCORDING TO INSEE SURVEY, TREND REFLECTED UNEVENLY
AMONG SECTORS: BUOYANCY IN CAPITAL EQUIPMENT, SUSTAINED
GROWTH IN INTERMEDIATE GOODS (BUT WEAKENING IN SECOND
QUARTER), WEAKNESS IN CONSUMER GOODS. GROSS FIXED
CAPITAL FORMATION BY FIRMS AND RATE OF INDUSTRIAL INVEN-
TORY ACCUMULATION ALSO SHOWED RAPID GROWTH IN FIRST
QUARTER, EASING IN SECOND.

7. OUTLOOK FOR 1975 LINKED TO FRG PERFORMANCE -
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OUTLOOK FOR FRENCH ECONOMY IN 1975 HINGES LARGELY ON ECONOMIC PROSPECTS IN GERMANY, ACCORDING TO NOVEMBER 4 REPORT OF BANQUE DE PARIS ET DES PAYS-BAS (PARIBAS). GIVEN SUFFICIENT REFLATION IN FRG, CONSEQUENCES OF SLOW-DOWN IN FRENCH INDUSTRY "WILL BE MORE-OR-LESS TOLERATED" IN PARIBAS ESTIMATION. WHILE BANK PROJECTS LOWER RATE OF GROWTH IN INDUSTRIAL OUTPUT THAN IN 1974, IT REFRAINS FROM QUANTIFYING DECLINE

PARIBAS OUTLOOK FOR HOUSEHOLD CONSUMPTION IS GROWTH OF AT LEAST 3.5 PERCENT (EQUAL TO GOF FORECAST) AND POSSIBLY HIGHER. BUSINESS INVESTMENT PICTURE MORE UNCERTAIN, GIVEN DECLINE IN FIRMS' FINANCIAL POSITIONS. NET INDEBTEDNESS OF NON-FINANCIAL FIRMS ROSE IN 1974 BY 43 PERCENT, WHILE FIRMS' INTEREST PAYMENTS THIS YEAR HAVE INCREASED NEARLY 30 PERCENT. SUCH ADDITIONAL INDEBTEDNESS, IN PARIBAS VIEW, THREATENS TO RESTRAIN INVESTMENT TO LEVELS CONSIDERED UNACCEPTABLE EVEN FOR COOLING-OFF PERIOD.

8. MONEY SUPPLY UP 14.6 PERCENT OVER 12 MONTHS -

BROADLY-DEFINED MONEY SUPPLY (M2) DECLINED 1 PERCENT IN AUGUST TO FR 599.35 BILLION, ACCORDING TO NATIONAL CREDIT COUNCIL STATISTICS. THE CONTRACTION WAS

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MORE PRONOUNCED THAN USUAL FOR THIS PERIOD; ON SEASON-
ALLY-ADJUSTED BASIS, HOWEVER, M2 SHOWED RELATIVELY
MODERATE 1.1 PERCENT INCREASE. CALCULATED OVER PREVIOUS
12 MONTHS, GROWTH IN MONEY SUPPLY WAS 14.6 PERCENT.

WHILE CURRENCY IN CIRCULATION DIMINISHED IN SAME
PROPORTION AS IN AUGUST 1973 (MINUS 2 PERCENT), DECLINE
IN DEMAND DEPOSITS (MINUS 3.6 PERCENT) MUCH STRONGER
THAN YEAR AGO (MINUS 2.4 PERCENT). GROWTH IN NEAR-
MONIES (UP 1.8 PERCENT TO FR 272.60 BILLION) SLOWED
RELATIVE TO 4.5 PERCENT INCREASE IN JULY AND 3 PERCENT
IN AUGUST 1973.

9. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

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26079 CHILE DEBT RESCHEDULING NOVEMBER 5, 1974

2608L US INVESTMENT IN ST. MARTIN NOVEMBER 5, 1974

26578 IMF TRADE DECLARATION NOVEMBER 8, 1974

AIRGRAMS

A-554 FRENCH FOREIGN EXCHANGE NOVEMBER 4, 1974
HOLDINGS

A-560 FRENCH FOREIGN EXCHANGE NOVEMBER 8, 1974

HOLDINGS

A-564 FRENCH RESERVES IN OCTOBER NOVEMBER 12, 1974
1974

A-575 FRENCH FOREIGN EXCHANGE NOVEMBER 15, 1974
HOLDINGS
RUSH

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